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WEBINAR

Briefing

India Opens Up

From the Privcap webinar:
“Private Equity in India“

Manish Kejriwal
Kedaara Capital Advisors LLP

Cyrus Driver
Partners Group

Mayank Rastogi
EY

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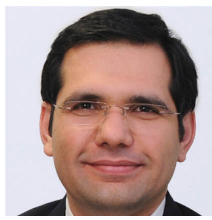
India Opens Up

The country's new government is pro-business. Family-owned companies are welcoming investment. Exits are available. It all means opportunity for private equity.

The Panelists

Manish Kejriwal
Managing Partner,
Kedaara Capital
Advisors LLP



Cyrus Driver
Head of Private
Equity in Asia,
Partners Group

Mayank Rastogi
Partner,
EY

➜ BIO

Prior to co-founding Kedaara Capital, Kejriwal served as a senior managing director of Temasek Holdings. He founded Temasek's India office and headed all of its investments and other activities in the country, as well as having multiple responsibilities in Temasek Singapore. He was also a partner at McKinsey and Company and has worked at Goldman Sachs and at the World Bank. Kejriwal is a graduate of Dartmouth College and received an M.B.A. from Harvard Business School.

➜ BIO

Driver is head of Partners Group's Mumbai office and its head of private equity in Asia. He is responsible for the firm's private equity investment activities in India and is a member of the private equity direct investment committee. Prior to joining Partners Group, he worked at J.P. Morgan Partners, LLC; Helix Investments; and Arka Capital Advisors Pvt Ltd. He holds an M.B.A. from the Indian Institute of Management, Ahmedabad.

➜ BIO

Rastogi is a partner in the transaction support practice of EY India and also leads the private equity desk there. He has more than 12 years of TS experience. In his current PE role, Rastogi interacts heavily with a large variety of PE funds and their investors on a regular basis and is driving a number of initiatives to increase EY's penetration with PE funds and their portfolio.

Privcap: Let's start with a thousand-foot view of the Indian market. There have been a number of important changes over the past year or so. There has been a historic election, and of course, the markets have shown some momentum. What does all this mean for private equity?

Manish Kejriwal, Kedaara Capital: I'd like to set the context by saying India's a bit of a pendulum, from our perspective. India was never as bad as people made it out to be two years ago, when we were raising our fund. And India's definitely not as good as people make it out to be today. So the pendulum swings in extreme directions. We sort of remain in the middle.

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> **"The biggest challenge we see now is not to growth but to entry valuations."**
>
> –Cyrus Driver, Partners Group

Having said that, I think the biggest change in India is the politics. We now have a government with an absolute majority in the lower house, which is very pro-business and has introduced a number of reforms, including opening up the insurance sector to foreign insurance players. And then there is the dramatic decrease in the price of oil, which has made a substantial positive impact on India by decreasing the budget deficit substantially and stabilizing the rupee versus the dollar.

Cyrus Driver, Partners Group: The biggest challenge we see now is not to growth but to entry valuations. In my experience, India has always grown despite its government. And now to have a business-friendly, reformist, fiscally responsible government, India has huge room to grow. We're the poorest country among the BRIC nations, and that growth will keep us going for a long time. The challenge is really not about growth at this point but paying the right price for growth.

Can you talk about the recent shift in the political landscape and what it means for the economy?

Mayank Rastogi, EY: The political situation has led to a large shift in how India is seen overseas. We see so much inbound interest in India now. I won't say it's where it was in 2008, pre-crisis, but it's almost getting there. India was always an expensive market, but some of the deals that we hear about—they're going bonkers again.

While there have been definite successes in the Indian private equity market, a lot of the deals and funds that were started more recently have not performed as expected. What's caused that underperformance?

Driver: As a country, we went from deploying $2B in private equity per annum in 2004 to $15B by 2007. And a large part of that capital was being deployed by teams that had not done it before. It was easy to get overwhelmed by capital. The consequence was higher entry valuations, shorter diligence periods, and aggressive investment structures. So it's been a weak vintage for private equity from 2008 until about 2010–11.

What does deal flow look like in the Indian market? What kinds of companies are seeking to partner with private equity, and what do they want in addition to capital?

Kejriwal: One emerging opportunity is the large family groups that are now allowing themselves to spin out non-critical subsidiaries—something you didn't see 10 or even five years ago. The second thing we're seeing is many first-generation entrepreneurs reaching their 60s and 70s. Their children were normally the inheritors, but—while they love to inherit the wealth—they have refused to inherit boring industrial manufacturing companies.

Our approach has been to partner with family groups as well as first-generation entrepreneurs and buy between a 40 percent and 70 percent stake in the companies. We work alongside the existing entrepreneur and really push the company to achieve its full potential. And then we jointly sell with the current owner—which then becomes a minority shareholder—normally to a strategic [buyer].

If the Indian private equity market has many GPs who six, seven years ago were doing largely minority, pre-IPO-style investing, do you think there is sufficient operating skill in these GP groups to drive value creation in a control-style investment?

Rastogi: The entire managerial ecosystem has developed over time. So you will find a number of cases now where there are management teams that are moving from one successful deal to another. There are people like Manish and Cyrus who are enlisting managers on…I won't say their payrolls, but almost that. They have ready management teams they can insert into situations.

How have the various exit channels been developing recently?

Driver: The IPO market in India was shut for the better part of three years and is now opening this year. So I expect to see a lot of exits and a lot of distributions from an earlier vintage of Indian private equity investments by the end of this year. Also, foreign strategics, who always paid great valuations to acquire segment-leading assets in India, are again showing a lot of interest in how India is performing for them or in adding India to their portfolio of markets. So even though public markets will drive exits this year, there will be a knock-on positive effect on trade-sale exits as well. ■

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